



# Our Economy and The World

The Weekly Report

Issue: 293 Date: 23<sup>rd</sup> October 2022

This week's issue of "Our Economy and the World" includes:

- Key Global and Regional Developments over the Past Week
  - Bloomberg: Germany, France urge talks on US climate law to avoid trade war
  - Bloomberg: UK inflation returns to double digits as food prices soar
  - Reuters: Euro zone government bond yields drop, with eyes on gilts
  - BBC: UK's mini-budget U-turn welcomed by IMF
- Special Analysis
  - IMF: Countering the Cost-of-Living Crisis
- Developments in Financial and Commodity Markets in the Past Week
  - CNBC: Stocks snap two-day winning streak as 10-year yield hits highest level since 2008
  - CNBC: European markets close lower as UK sees inflation rise, political turmoil; ASML up 8%

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### The Weekly Report

## Key Global and Regional Developments over the Past Week

### **Bloomberg: Germany, France urge talks on US climate law to avoid trade war**

German and French ministers called for talks with the US administration to avoid a trade war over measures in President Joe Biden's climate law they say could discriminate against European companies. The officials discussed the risks of industry relocating production to the US and various measures they could take, German Economy Minister Robert Habeck said on Wednesday after a virtual meeting with French counterpart Bruno Le Maire.

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### **Bloomberg: UK inflation returns to double digits as food prices soar**

Soaring food prices drove UK inflation back into double digits in September, intensifying pressure on the government and central bank to act. The Consumer Prices Index rose 10.1% last month from 9.9% the month before, the Office for National Statistics said Wednesday. That matched a 40-year high reached in July and exceeded economists' expectations for 10%. The figures leave inflation well above the Bank of England's 2% target, adding to pressure on policy makers to lift the key rate significantly next month. The danger is that prices accelerate again early next year after the government loosens its support for household energy bills.

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### **Reuters: Euro zone government bond yields drop, with eyes on gilts**

Euro zone government bond yields fell sharply on Monday, taking their cues from British gilts, after Britain's new finance minister scrapped almost all of September's disastrous "mini- budget". However, euro zone yields were still not far off their highest levels in more than 10 years, with investors also focused on inflation risks and increasing bond supply. British finance minister Jeremy Hunt announced tax changes on Monday that he said would raise 32 billion pounds (\$36.16 billion) a year in extra revenue as he sought to end a rout in the bond market caused by the government's previous plans.

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### **BBC: UK's mini-budget U-turn welcomed by IMF**

The UK government's U-turn on tax cuts will help tackle soaring inflation, the International Monetary Fund has said. In a statement, the IMF said the changes will help "better align fiscal and monetary policy in the fight against inflation". The statement comes after the body had openly criticized the UK government in September over its plan for tax cuts. Last month, the IMF said the tax cut plan was likely to increase inequality and add to pressures pushing up prices. In an unusual move, it openly criticized the UK government's tax cuts plan, and then warned that rising prices would be worse in the UK. The IMF had said the policy worked at cross-purposes with measures designed to slow how quickly the cost of living was rising. After market turmoil following the mini budget, the government made a U-turn, reversing a pledge to cut the top rate of income tax.

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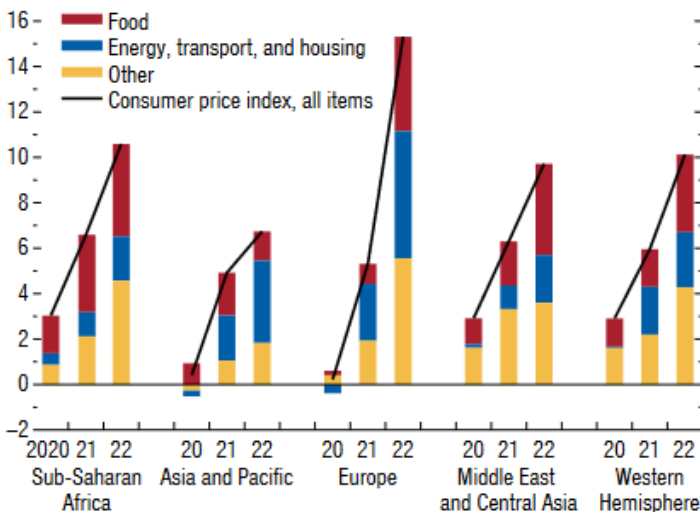
### Special Analysis

#### IMF: Countering the Cost-of-Living Crisis

Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia’s invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook. Global growth is forecast to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic.

Global inflation is forecast to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to decline to 6.5 percent in 2023 and to 4.1 percent by 2024. Monetary policy should stay the course to restore price stability, and fiscal policy should aim to alleviate the cost-of-living pressures while maintaining a sufficiently tight stance aligned with monetary policy. Structural reforms can further support the fight against inflation by improving productivity and easing supply constraints, while multilateral cooperation is necessary for fast-tracking the green energy transition and preventing fragmentation.

**Figure 1.9. Inflation Driven by Food and Fuel**  
(Annualized percent)



Sources: IMF, Consumer Price Index database; and IMF staff calculations.

Note: Figure shows inflation contributions from broad categories. Contributions are computed first by country, annualized over available months in cases in which data are partial (for example, for 2022). The figure shows both the median contributions and aggregate inflation rate for each region.

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## Developments in Financial and Commodity Markets in the Past Week

.CNBC: Stocks snap two-day winning streak as 10-year yield hits highest level since 2008

Stocks moved lower on Wednesday as Wall Street struggled to extend its rally amid a sharp rise in Treasury yields. The Nasdaq Composite lost 0.85% to close at 10,680.51. The S&P 500 ticked down 0.67% to 3,695.16. The Dow Jones Industrial Average slipped 99.99 points, or 0.33%, to finish the day at 30,423.81. The losses ended a two-day winning streak, though all three averages are still up for the week.



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#### [CNBC: European markets close lower as UK sees inflation rise, political turmoil; ASML up 8%](#)

The Stoxx 600 index ended the day down 0.5%, with financial services, construction and food and beverages leading losses. Technology firms bucked the trend to gain 1.2%.

### Europe Stoxx 600 (.STOXX:STOXX)

EUR  
Last | 3:50 PM GMT  
**397.73** -2.11 (0.53%)  
5 Day



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